

Chapman Law Review

Volume 18 | Issue 3

Article 1

2015

Trolls or Toll-Takers: Do Intellectual Property Non-practicing Entities Add Value to Society?

Samuel F. Ernst

Chapman University, Fowler School of Law, saernst@chapman.edu

Follow this and additional works at: <http://digitalcommons.chapman.edu/chapman-law-review>

Recommended Citation

Samuel F. Ernst, *Trolls or Toll-Takers: Do Intellectual Property Non-practicing Entities Add Value to Society?*, 18 CHAP. L. REV. 611 (2015).

Available at: <http://digitalcommons.chapman.edu/chapman-law-review/vol18/iss3/1>

This Article is brought to you for free and open access by the Fowler School of Law at Chapman University Digital Commons. It has been accepted for inclusion in Chapman Law Review by an authorized administrator of Chapman University Digital Commons. For more information, please contact laughtin@chapman.edu.

Introduction to the 2015 *Chapman Law Review* Symposium:

Trolls or Toll-Takers: Do Intellectual Property Non-practicing Entities Add Value to Society?

*Samuel F. Ernst**

There are few areas of patent law more contentious than the dispute over the social utility of “non-practicing entities,” or (if you will excuse the expression) “patent trolls.”¹ Generally speaking, patent trolls are companies that acquire patents, not for the purpose of developing new technologies and creating jobs, but for the sole purpose of demanding royalties (through litigation if necessary) from those companies that do release products on the market. Whether non-practicing entities add value to society is a topic of much debate, and the focus of the 2015 *Chapman Law Review* Symposium.

On the one hand, there has been no shortage of condemnation of patent trolls from the legal community. One study reported that patent trolls imposed direct litigation costs on defendants of \$29 billion in 2011 alone.² This stunning figure does not even include the indirect costs of litigation (for example, the cost of manpower directed away from useful activities when engineers must assist in collecting discovery, giving depositions, investigating non-infringement and invalidity defenses, and so forth; and the jobs that could be preserved or created with the money spent on defending litigation). Nor does this figure include the substantial amount of royalties paid to patent trolls in

* Assistant Professor of Law, Chapman University Dale E. Fowler School of Law.

¹ And some scholars will not excuse that expression. James F. McDonough argues that the term “patent dealers” is a “[a] more suitable, market-contextual term for nonpracticing patent owners who license or enforce their patents.” James F. McDonough III, Comment, *The Myth of the Patent Troll: An Alternative View of the Function of Patent Dealers in an Idea Economy*, 56 EMORY L.J. 189, 201 (2006). Robin Feldman and her colleagues prefer the term “patent monetization entities.” Robin Feldman, Tom Ewing & Sara Jeruss, *The AIA 500 Expanded: The Effects of Patent Monetization Entities*, UCLA J.L. & TECH., Fall 2013, at 1, 16.

² James Bessen & Michael J. Meurer, Essay, *The Direct Costs from NPE Disputes*, 99 CORNELL L. REV. 387, 408 (2014).

licensing negotiations to avoid the prospect of costly litigation.³ Robin Feldman and her colleagues estimate that patent trolls filed 58.7% of the patent infringement lawsuits in 2012, and observe that trolls frequently target startup companies in the internet and technology sectors⁴—companies that are just embarking on the path to innovation and cannot afford to defend themselves even if the asserted patents are plainly invalid or not infringed.

In this vein, commentators condemn patent trolls as “bottom feeders” who acquire and assert low-value patents, calculating that the high cost of litigation will result in an early settlement.⁵ Patent trolls are able to drive up the cost of litigation with impunity. They can demand expensive discovery but are immune to counterattacks because they produce no products that can be the target of patent infringement counterclaims and have little information to discover, given that they are small companies or even shell corporations with little or no employees.

Indeed, whereas most areas of patent law are arcane and abstract, patent trolls have failed to escape the attention of even the President of the United States, who has complained that patent trolls “don’t actually produce anything themselves. They’re just trying to essentially leverage and hijack somebody else’s idea and see if they can extort some money out of them.”⁶ And condemnation of patent trolls appears to be one area on which the two parties can agree. *Vox* reports that “[t]he incoming Republican chairmen of both the House and Senate Judiciary committees have signaled their support for patent legislation. And they largely see eye to eye with President Obama, who has also called for reform.”⁷ In support of such reforms, Senator Orrin

³ See *id.* at 409.

⁴ Feldman, Ewing & Jeruss, *supra* note 1, at 13 (citing John R. Allison et al., *Patent Litigation and the Internet*, 2012 STAN. TECH. L. REV. 3, ¶ 6); Colleen Chien, *Startups and Patent Trolls 1* (Sept. 13, 2012) (unpublished manuscript), available at digitalcommons.law.scu.edu/cgi/viewcontent.cgi?article=1554&context=facpubs.

⁵ See Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2126 (2013). The authors identify two other varieties of patent trolls: “lottery ticket” trolls own a patent they believe reads on a wide swath of technology and hope to “hit it big” with a large jury award; “patent aggregators” collect many thousands of patents and are able to force companies to take licenses without litigation because it is infeasible and prohibitively expensive to defend against such a sheer number of patents, regardless of whether they are valid or infringed. *Id.* at 2126–27.

⁶ Mike Masnick, *President Obama Admits that Patent Trolls Just Try to ‘Extort’ Money; Reform Needed*, TECHDIRT (Feb. 14, 2013), <https://www.techdirt.com/articles/20130214/14351821988/president-obama-admits-that-patent-trolls-just-try-to-extort-money-ref-orm-needed.shtml>.

⁷ Timothy B. Lee, *Senate Republicans Are Getting Ready to Declare War on Patent Trolls*, VOX (Nov. 20, 2014, 8:30 AM), <http://www.vox.com/2014/11/20/7251877/republican-patent-troll-fight>.

Hatch recently said, “Patent trolls – which are often shell companies that do not make or sell anything – are crippling innovation and growth across all sectors of our economy.”⁸

On the other hand, some scholars have argued that the criticism of patent trolls is misguided. James F. McDonough forcefully argues that patent trolls (or patent dealers, as McDonough calls them) benefit society by providing liquidity, market clearing, and increased efficiency to the market for patents.⁹ The evolution of an efficient market for innovation gives inventors an incentive to invent and gives the public “easier and broader access to inventions.”¹⁰ Hence, patent trolls help to effectuate the goal of the Patent and Copyright Clause of the U.S. Constitution, to “promote the Progress of . . . useful Arts, by securing for limited Times to . . . Inventors the exclusive Right to their . . . Discoveries.”¹¹

In a wholly different vein, Mark Lemley and A. Douglas Melamed argue that those who focus their energy on attacking patent trolls are “missing the forest for the trolls.”¹² While patent trolls are a large and growing problem, they are merely “a symptom of systemic issues the patent system faces in the IT industry—too many patents interpreted too broadly, a remedy system that routinely awards excessive damages and enables patent holders to bargain for excessively costly settlements, and an enormous royalty stacking problem.”¹³ Professor Lemley and Mr. Melamed further argue that “[p]racticing entities, as well as trolls, can and do take advantage of these issues.”¹⁴

The 2015 *Chapman Law Review* Symposium will seek to advance the discussion of non-practicing entities in three ways: (1) by expanding on the scholarly debate surrounding patent trolls summarized above; (2) by expanding on the perspectives informing this debate beyond academia by inviting the views of practitioners from both sides of the patent troll divide; and (3) by expanding on the scope of this topic by considering the nature and possibility of copyright and trademark trolls.

First, I will moderate a panel of distinguished patent law scholars will expand upon and further develop the debate

⁸ *Id.* (quoting Senator Orrin Hatch (R-UT)).

⁹ McDonough, *supra* note 1, at 216–18.

¹⁰ *Id.* at 223.

¹¹ U.S. CONST. art. I., § 8, cl. 8.

¹² Lemley & Melamed, *supra* note 5, at 2121.

¹³ *Id.* at 2180.

¹⁴ *Id.*

summarized above with new data and theories on the issue of patent trolls:

- Professor Robin Feldman will assess the impact of patent trolls on the business and legal landscape of the country and consider common law, regulatory, and legislative responses to the problem.¹⁵
- Professor Amy L. Landers will explore how patent trolls are creating a “bubble” in the value of patents, the bursting of which could have destabilizing, negative consequences for investment in research and development.¹⁶
- Professor Brian L. Frye will argue that we should stop using intellectual property metaphors, such as “patent troll.” These metaphors describe intellectual property as an expression of moral values, which prevents us from understanding the connection between intellectual property’s theoretical welfarist justification and its actual scope.¹⁷
- Professor Ryan T. Holte will analyze in detail the Supreme Court case of *eBay v. MercExchange*, arguing that the case is improperly understood as creating a firm rule that non-practicing entities cannot obtain injunctive relief; and that this misunderstanding was caused in part by eBay’s marketing and public relations efforts and the settlement of the case before the Federal Circuit could render a final ruling on the case.¹⁸

Second, a distinguished panel of patent law practitioners and policy makers will debate the effect of non-practicing entities on industry. This panel will include:

- Congressman Dana Rohrabacher of California’s Forty-Eighth Congressional District;
- Robert D. Fish, a partner at Fish & Tsang LLP, who litigates patent cases;
- Lee Cheng, the Chief Legal Officer of the technology company Newegg Inc.;

¹⁵ See Robin Feldman, *The Pace of Change: Non-practicing Entities and the Shifting Legal Landscape*, 18 CHAP. L. REV. 635 (2015).

¹⁶ See Amy L. Landers, *Private Value Determinations and the Potential Effect on the Future of Research and Development*, 18 CHAP. L. REV. 647 (2015).

¹⁷ See Brian L. Frye, *IP as Metaphor*, 18 CHAP. L. REV. 735 (2015).

¹⁸ See Ryan T. Holte, *The Misinterpretation of eBay v. MercExchange and Why: An Analysis of the Case History, Precedent, and Parties*, 18 CHAP. L. REV. 677 (2015).

- Ian D. McClure, the Director of Intellectual Property Exchange International, Inc., a company that describes itself as “the World’s First Financial Exchange for Licensing and Trading Intellectual Property Rights;”¹⁹ Mr. McClure argues that NPEs have been essential in the development of patent rights as an asset class and article of trade, and that NPEs should next develop “best practices” to provide greater transparency through a central marketplace;²⁰ and
- Nathan Shafroth, a partner at Covington & Burling LLP who litigates patent cases.
- John B. Sganga, Jr., a partner at Knobbe, Martens, Olson & Bear, LLP who litigates patent cases and teaches at the Fowler School of Law, will moderate this panel.

Third, a distinguished panel of copyright and trademark scholars and practitioners will expand this discussion to consider the nature and existence of “soft IP” trolls:

- Professor Tom W. Bell will examine the emergence of “copyright pornography trolls,” who sue thousands of John Doe defendants with the hopes of netting millions in settlement payments from the guilty and innocent alike. Professor Bell will also examine the use of taxi medallions to pursue networked transportation companies such as Uber and Lyft. Professor Bell argues that these types of vexatious conflicts result from the mistreatment of statutory and regulatory privileges as property rights.²¹
- Professor Michael S. Mireles will explore how trademark law has addressed the problem of non-practicing entities through laws and regulations in areas such as Internet domain registration and Patent and Trademark Office inter partes proceedings.²²
- Chris Arledge, the Co-founder and Managing Partner of One LLP, Brad Greenberg of Columbia Law School, and Lindy Herman of Fish & Tsang LLP will also contribute

¹⁹ IPXI, <https://www.ipxi.com> (last visited Mar. 5, 2015).

²⁰ See Ian D. McClure, *From a Patent Market for Lemons to a Marketplace for Patents: Benchmarking IP in Its Evolution to Asset Class Status*, 18 CHAP. L. REV. 759 (2015).

²¹ See Tom W. Bell, *Copyright Porn Trolls, Wasting Taxi Medallions, and the Propriety of “Property”*, 18 CHAP. L. REV. 799 (2015).

²² See Michael S. Mireles, *Trademark Trolls: A Problem in the United States?*, 18 CHAP. L. REV. 815 (2015).

to this panel. It will be moderated by Professor Mary Lee Ryan of the Fowler School of Law.

Finally, we are most honored to have Andrew Byrnes, Chief of Staff of the United States Patent and Trademark Office as our keynote speaker. Mr. Byrnes will discuss ongoing developments relevant to patent applicants and owners, including non-practicing entities, and the role of the U.S. Patent and Trademark Office and the Obama Administration in helping to ensure the IP system is balanced, effective, and promotes innovation.²³

²³ See Andrew Byrnes, Chief of Staff, U.S. Patent & Trademark Office, Keynote Address at the *Chapman Law Review* Symposium: Standing Sentinel over Innovation: The Importance of a Balanced and Effective IP System (Jan. 30, 2015), in 18 CHAP. L. REV. 617 (2015).